

174772

G. DUKES SCOTT  
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DAN F. ARNETT  
CHIEF OF STAFF

July 13, 2005

**VIA HAND DELIVERY**

Mr. Charles L.A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

RECEIVED  
2005 JUL 13 PM 4:29  
SC PUBLIC SERVICE COMMISSION

Re: Application of Haig Point Utility Company, Inc. for Approval of an  
Adjustment in Rates and Charges for Water and Sewer Services  
**Docket No. 2005-34-W/S**

Dear Mr. Terreni:

Enclosed for filing please find the original and twenty-six (26) copies of the Surrebuttal Testimony and Exhibits of Dr. Douglas Carlisle and Sharon G. Scott in the above referenced matter. Please date stamp the extra copy enclosed and return it to me via our courier.

Also, we have served same on all parties of record and enclose a Certificate of Service to that effect.

Please let me know if you have any questions.

Sincerely,

*Wendy B. Cartledge*

Wendy B. Cartledge

WBC/rng  
Enclosures

cc: G. Trenholm Walker, Esquire (w/enclosures)  
John F. Beach, Esquire (w/enclosures)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2005-34-W/S**

FILED  
2005 JUL 13 PM 4:27  
COLUMBIA, SC

IN RE: Application of Haig Point Utility )  
Company, Inc. for Approval of an )  
Adjustment in Rates and Charges )  
For Water and Sewer Services )  
\_\_\_\_\_ )

**CERTIFICATE OF SERVICE**

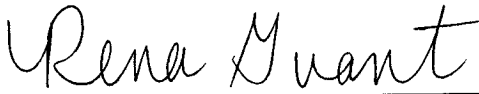
This is to certify that I, Rena Grant, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **SURREBUTTAL TESTIMONY AND EXHIBITS OF DR. DOUGLAS CARLISLE AND SHARON G. SCOTT** in the above-referenced matter to the person(s) named below:

**VIA ELECTRONIC MAIL AND U.S. MAIL**

G. Trenholm Walker, Esquire  
**Pratt-Thomas, Epting & Walker, P.A.**  
Post Office Drawer 22247  
Charleston, SC 29413

**VIA ELECTRONIC MAIL AND HAND DELIVERY**

John F. Beach, Esquire  
**Ellis Lawhorne & Sims, P.A.**  
Post Office Box 2285  
Columbia, SC 29202

  
\_\_\_\_\_  
Rena Grant

July 13, 2005  
Columbia, South Carolina

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DAN F. ARNETT  
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July 13, 2005

**VIA HAND DELIVERY**

John F. Beach, Esquire  
**Ellis Lawhorne & Sims, P.A.**  
Post Office Box 2285  
Columbia, SC, 29202

RE: Application of Haig Point Utility Company, Inc. for Approval of an  
Adjustment in Rates and Charges for Water and Sewer Services  
**Docket No. 2005-34-W/S**

Dear John:

Please find enclosed and served on you one (1) copy of the Surrebuttal Testimony and Exhibits of the Office of Regulatory Staff witnesses Dr. Douglas Carlisle and Sharon G. Scott in the above-referenced matter.

Please let me know if you have any questions.

Sincerely,

*Wendy B. Cartledge*

Wendy B. Cartledge

WBC/mg

Enclosures

cc: Charles L.A. Terreni

SC PUBLIC  
COMMISSION  
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July 13, 2005

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Post Office Drawer 22247  
Charleston, SC 29413

RE: Application of Haig Point Utility Company, Inc. for Approval of an  
Adjustment in Rates and Charges for Water and Sewer Services  
**Docket No. 2005-34-W/S**

Dear Mr. Walker:

Please find enclosed and served on you one (1) copy of the Surrebuttal Testimony and Exhibits of the Office of Regulatory Staff witnesses Dr. Douglas Carlisle and Sharon G. Scott in the above-referenced matter.

Please let me know if you have any questions.

Sincerely,

*Wendy B. Cartledge*

Wendy B. Cartledge

WBC/rmg  
Enclosures

cc: Charles L.A. Terreni

**THE OFFICE OF REGULATORY STAFF  
SURREBUTTAL TESTIMONY AND  
EXHIBITS**

**OF**

**Dr. Douglas Carlisle**

FILED  
2005 JUN 13 PM 4:20  
SOUTH CAROLINA  
COLUMBIA



**DOCKET NO. 2005-34-WS**

**Application of Haig Point Utility  
Company, Inc. for Approval of an  
Adjustment in Rates and Charges for  
Water and Sewer Services**

**SURREBUTTAL TESTIMONY OF DOUGLAS H. CARLISLE, JR.**

**Q: ARE YOU AWARE OF MR. WHITE'S STATEMENT IN REBUTTAL THAT YOU MADE AN ERROR ON YOUR FIRST EXHIBIT, DHC-1?**

**A. Yes.**

**Q. DO YOU ACCEPT MR. WHITE'S AND MR. GUASTELLA'S CORRECTIONS TO THAT EXHIBIT?**

**A. Yes, except that I believe both HPUC and ORS audit have since found they made other errors. All corrections are incorporated into my Exhibit DHC-1 REVISED.**

**Q. WHAT IS THE IMPACT OF THIS CHANGE ON THE SUBSTANCE OF YOUR TESTIMONY?**

**A. It emphasizes that treating Haig Point Utility Company (HPUC) as though it had a 50% equity and 50% debt is very helpful to the company's case. It was this basis that I used in my analysis.**

1   **Q.   DO YOU AGREE WITH MR. GUASTELLA'S STATEMENT IN**  
2       **REBUTTAL THAT YOUR ANALYSIS SELECTED A PERIOD WHEN**  
3       **CAPITAL COSTS WERE ATYPICALLY LOW?**

4  
5   **A.   I disagree with his implication that using that period is unfair to HPUC. The**  
6       **CAP-M analysis is based on historical earnings and relatively low inflation, which**  
7       **raises the recommended Return on Equity. If I had calculated the effects of lower**  
8       **growth and higher capital costs, it would have lowered my return estimate.**

9  
10       There is a second reason that using this period is not unfair to HPUC. Schedule  
11       A-1 of HPUC's application shows \$1,046,898 in "advances from Associated Co."  
12       At the same time, in response to ORS data requests, HPUC has stated that it is all  
13       equity and no debt. Apparently HPUC has access to very favorable financing –  
14       far better than the typical company.

15  
16   **Q.   DO YOU AGREE WITH MR. GUASTELLA THAT HPUC SHOULD BE**  
17       **GIVEN A PREMIUM BECAUSE IT IS A SMALL COMPANY?**

18  
19   **A.   No. My recommended Return on Equity is 9.65%, which is already 0.5% higher**  
20       **than the average for the companies in my proxy group. Moreover, my analysis**  
21       **assumed that companies would offer higher payouts in the future due to their**  
22       **plowing their profits back into their operations, so this increased my**  
23       **recommendation.**

1    **Q.    DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

2

3    **A.    Yes.**



## HAIG POINT UTILITY COMPANY (HPUC): CAPITAL

DESCRIPTION	RATE BASE	RATIO	EMBEDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$1,231,555	50%	7.50%	3.75%	\$92,367
Equity	\$1,231,555	50%	9.65%	4.83%	\$118,845
	\$2,463,109			8.58%	

## HAIG POINT UTILITY COMPANY (HPUC): CAPITAL USING INTERNATIONAL PAPER'S CAPITAL STRUCTURE

DESCRIPTION	RATE BASE	RATIO	EMBEDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$1,231,555	60%	7.50%	4.50%	\$110,840
Equity	\$1,231,555	40%	9.65%	3.86%	\$95,076
	\$2,463,109				
Equity under 50-50 structure					\$118,845
Equity under 60-40 structure					\$95,076
<b>Difference</b>					<b>\$23,769</b>

# **HAIG POINT UTILITY COMPANY (HPUC): CAPITAL CHANGE IN RATE BASE NECESSARY TO MEET HPUC ROE TARGET**

DESCRIPTION	RATE BASE	RATIO	EMBEDDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$1,467,482	50%	7.50%	3.75%	\$110,061
Equity	\$1,467,482	50%	9.65%	4.83%	\$141,612
	\$2,934,964				

HPUC target revenue from equity \$141,612  
Additional equity revenue requirement to meet HPUC target \$471,855

# **HAIG POINT UTILITY COMPANY (HPUC): CAPITAL CHANGE IN ROE NECESSARY TO MEET HPUC EQUITY RETURN TARGET**

DESCRIPTION	RATE BASE	RATIO	EMBEDDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$1,231,555	50%	7.50%	3.75%	\$92,367
Equity	\$1,231,555	50%	11.50%	5.75%	\$141,612
	\$2,463,109				

**THE OFFICE OF REGULATORY STAFF**  
**SURREBUTTAL TESTIMONY AND**  
**EXHIBITS**  
**OF**  
**SHARON G. SCOTT**



**DOCKET NO. 2005-34-WS**

**Application of Haig Point Utility  
Company, Inc. for Approval of an  
Adjustment in Rates and Charges for  
Water and Sewer Services**

**SURREBUTTAL TESTIMONY OF SHARON G. SCOTT****FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2005-34-W/S****IN RE: HAIG POINT UTILITY COMPANY, INC.**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Sharon G. Scott. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina, 29201. I am employed by the Office of Regulatory Staff as an Auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR BUSINESS EXPERIENCE.**

**A.** I received a B.S. Degree in Business Administration, with a major in Accounting from the University of South Carolina in May 1983 and a MBA degree from Webster University in May 2000. I was employed by the South Carolina Public Service Commission in July 1983 and have participated in cases involving gas, electric, telephone, water and wastewater utilities. I have 22 years of experience auditing utility companies. In January 2005, I began my employment with the Office of Regulatory Staff (ORS).

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY INVOLVING HAIG POINT UTILITY COMPANY, INC.?**

---

**THE OFFICE OF REGULATORY STAFF  
1441 Main Street, Suite 300, Columbia, SC 29201  
Post Office Box 11263, Columbia, SC 29211**

1 A. The purpose of my testimony is and to set forth my findings and recommendations  
2 resulting from ORS's review of the application of Haig Point Utility Company, Inc.  
3 ("HPUC" or "the Company") in this docket and to respond to the rebuttal testimony  
4 of HPUC.

5 **Q. IS YOUR REPORT BASED ON THE COMPLETE SYSTEM**  
6 **METHODOLOGY?**

7 A. Yes. ORS did an evaluation and comparison of the complete system method and  
8 found the complete system method to be a fair and equitable method to allocate cost  
9 to the present customers of this system where the development of the property may  
10 extend to more than 20 years. The Company projects that the system will be fully  
11 developed in the year 2024.

12 **Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR PREFILED**  
13 **TESTIMONY.**

14 A. I have attached ORS's Audit Report related to HPUC's Application for a Rate  
15 Increase, Docket No. 2005-34-W/S. The contents of the Audit Report were either  
16 prepared by me or were prepared under my direction and supervision in compliance  
17 with recognized accounting and regulatory procedures for Water and Wastewater  
18 utility rate cases.

19 **Q. PLEASE EXPLAIN THE CONTENTS OF THE AUDIT REPORT.**

20 A. As outlined in the Index of the Audit Report, pages 1-5 contain the analysis of HPUC  
21 and its application. The remaining pages consist of exhibits which were prepared to  
22 show various aspects of HPUC's operations and financial position for per book and

complete system operations. The majority of my testimony will refer to Audit Exhibit SGS-1 - Operating Experience, Rate Base and Rates of Return - Combined Operations as shown on page 6 of the Audit Report.

**Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT SGS-1.**

A. Column (1) shows per book balances for HPUC as of June 30, 2004. I verified the per book balances to the books and records of HPUC.

Column (2) shows my accounting and pro forma adjustments designed to normalize HPUC's per book operations and show the effects of the complete system operations.

Column (3) shows my computation of HPUC's normalized test year and complete system operations prior to implementing the proposed increase.

Column (4) shows the adjustments for the requested rate increase and ORS's adjustments associated with the additional revenues for a complete system number of customers.

Column (5) shows our computation of the normalized test year after accounting and pro forma adjustments, the requested rate increase and associated adjustments for the complete system number of customers.

**Q. PLEASE ELABORATE ON THE CALCULATIONS IN AUDIT EXHIBIT SGS-1 - OPERATING EXPERIENCE, RATE BASE AND RATES OF RETURN - COMBINED.**

A. Column (1) shows the per books operating experience of HPUC. We computed a Net Loss for Return of (\$46,106) based on Total Operating Revenues of \$228,256 less Total Operating Expenses of \$274,362. Per Book Total Rate Base amounted to

1 \$4,900,714. We computed the per book rate of return of (0.94%) using Net  
2 Operating Loss of (\$46,106) and Total Rate Base of \$4,900,714.

3 In Column (2) our accounting and pro forma adjustments are presented to normalize  
4 HPUC's test year operations and reflect the projections for a complete system. A  
5 description of each adjustment is contained in Audit Exhibit SGS- 4.

6 Column (3) is the sum of Columns (1) and (2) and reflects the As Adjusted figures  
7 for the complete system. The accounting and pro forma adjustments produced Net  
8 Loss for Return of (\$100,834) and Total As Adjusted Rate Base of \$2,463,109,  
9 resulting in a Rate of Return on Rate Base of (4.09%).

10 Column (4) shows the effect of the proposed increase as requested by HPUC using  
11 the total number of customers when the system is fully completed and the proposed  
12 rates. These adjustments are detailed in Audit Exhibit SGS - 4.

13 Column (5) shows per book operations, adjusted for accounting and pro forma  
14 adjustments and the requested increase for the complete system. Using Total  
15 Operating Revenues of \$991,684 less Total Operating Expenses of \$686,742, I  
16 computed Net Income for Return of \$304,942. Net Income for Return of \$304,942  
17 divided by Total Rate Base of \$2,463,109 produced a Rate of Return on Rate Base of  
18 12.38%.

19 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT SGS - 4.**

20 **A.** The adjustments are as follows:

21 Adjustment No. 1 Service Revenue – ORS and HPUC propose to adjust revenues  
22 using the complete system number of customers and present rates. The As Adjusted

1 Service Revenues totaled \$445,051 less the per book amount of \$146,120, for an  
2 adjustment of \$298,931 (water - \$180,376 and sewer - \$118,555).

3 Adjustment No. 2 – Availability Fees – ORS and HPUC propose to eliminate  
4 Availability Fees as Operating Revenues for the Complete System. Since the  
5 complete system methodology assumes that all customers will be on the system,  
6 availability fees as revenue are not an issue.

7 Adjustment No. 3 – Allocation of Other Expenses – ORS proposes to correct the  
8 application amounts for operating expenses to reflect the 60/40 allocation of  
9 expenses between HPUC and Melrose Utility Company, Inc. ORS proposes an  
10 increase in sewer expenses of \$4,307.

11 Adjustment No. 4 – Salary Expense – Complete System – HPUC and ORS propose  
12 to increase the level of wages for the current 2 employees of \$63,476 to reflect the  
13 wages of 6 employees projected to be required for the operation of the complete  
14 system. The additional employees are necessary to operate and provide maintenance  
15 for the elevated water storage tank, new groundwater well, increased reading of  
16 meters, and increased maintenance on the water and sewer systems for a full  
17 complement of customers. The adjustment is for HPUC's portion of wages for those  
18 six employees necessary to maintain its water and sewer operations. ORS proposes  
19 an adjustment of \$112,704 using adjusted wages of  $\$63,476 \times 3 = \$190,428$  less the  
20 per book amount of \$77,724. The wages were adjusted to show the proper level of  
21 expenses based on the 60/40 split between HPUC and Melrose Utility Company, Inc.



1 HPUC proposes an adjustment of \$155,449 based on wages as filed in the  
2 application.

3 Adjustment No. 5 – Repairs & Maintenance – ORS and HPUC propose to increase  
4 repair and maintenance costs for the water system associated with the new elevated  
5 water storage tank and new groundwater well. The test year expenses of \$47,990 are  
6 adjusted using a factor of 1.645, resulting in the expense of \$78,945 for the complete  
7 system costs. The factor represents the increase from the present level for water  
8 plant of \$1,731,215 to the complete system amount for plant of \$2,847,910. The  
9 total adjustment is \$30,955 (\$78,945 less \$47,990).

10 Adjustments No. 6 - Operating Supply Costs – ORS and HPUC propose to increase  
11 the payment to American Water Works Association for certification manuals needed  
12 for new operators due to the increase in number of employees. The total adjustment  
13 is computed using the per book amount adjusted by a factor of 2.536. The factor is  
14 based on the projected increase in the system flow from the present amount to the  
15 complete system amount. The factor was verified by ORS's Water and Wastewater  
16 specialist Dawn Hipp. The total adjustment is \$152 (\$251 less \$99).

17 Adjustment No. 7 – Office Equipment Rental

18 ORS and HPUC propose to increase the cost for rental of equipment used to  
19 maintain the lines for the complete system. The per book amount of \$490 is  
20 adjusted using a factor of 3.754 for total complete system expenses of \$1,839.  
21 The factor is based on the increased number of customers for the complete system.

1 The factor was verified by ORS's Water and Wastewater specialist Dawn Hipp. The  
2 water adjustment is \$1,349 (\$1,839 less \$490).

3 Adjustment No. 8 – Power Costs

4 ORS and HPUC propose to increase power costs to reflect the expected cost of  
5 power to operate the complete system. Per book water costs of \$19,419 were  
6 adjusted using a factor of 2.536 for total complete system expense of \$49,245. The  
7 adjustment is \$29,826 (\$49,245 less \$19,419). The reallocated per book sewer power  
8 costs of \$9,422 were adjusted using a factor of 3.286 for the total complete system  
9 expense of \$30,961. The adjustment was \$21,539 (\$30,961 less \$9,422). The ORS  
10 combined operations adjustment to power costs totaled \$51,365. The factor was  
11 verified by ORS's Water and Wastewater specialist Dawn Hipp.

12 Adjustment No. 9 – Costs Associated with Taps

13 ORS proposes to remove expenses for installing taps. These expenses are capital  
14 expenditures and should be booked in plant accounts. The total adjustment reduced  
15 expenses by (\$3,781).

16 Adjustment No. 10 – Bad Debt Expense

17 ORS and HPUC propose to adjust bad debt expense to reflect 2.0% of complete  
18 system revenue for present customers. ORS water and wastewater specialist Dawn  
19 Hipp reviewed billing records and verified that the 2.0% uncollectible factor was  
20 reasonable. The total adjustment was a reduction of (\$18,711).

1        Adjustment No. 11 – Rate Case Expenses - ORS and HPUC propose to adjust for  
2        rate case expenses. The adjustment included total rate case expenses of \$80,000,  
3        amortized over four years, which amounted to a total adjustment of \$20,000.

4        Adjustment No. 12 – Legal Expenses – ORS proposes to remove legal expenses not  
5        related to the utility company. The adjustment removed (\$12,590) from expenses.

6        Adjustment No. 13 – Depreciation Expense – ORS and HPUC propose to reflect the  
7        annual depreciation expense for the complete system plant in service. HPUC used a  
8        service life of 50 years for the water and sewer mains and tanks, and 32 years for the  
9        wastewater treatment plant for total depreciation expense for the complete system of  
10       \$115,297 less the per book amount of \$30,296. HPUC's resulting adjustment was  
11       \$85,001 (\$44,113 for water and \$40,888 for sewer). ORS also proposes to reflect  
12       depreciation expense for the complete system plant in service. ORS used  
13       depreciation service life of 50 years for water and sewer mains and tank, and 32  
14       years for the Water & Wastewater treatment plant. However since plant in service is  
15       being depreciated with the system utilization factors, plant would not be fully  
16       depreciated by the end of its estimated service life. In addition ORS included the  
17       proportionate share of a vehicle shared by another utility on the island and included  
18       wastewater treatment plant upgrades completed in October 2004. ORS's total  
19       annualized depreciation expense for the complete system was \$116,696 (\$57,008 for  
20       water and \$59,688 for sewer). ORS reduced depreciation expense for the  
21       amortization of Contributions in Aid of Construction (CIAC). These funds are  
22       customer supplied funds used for plant expenditures and therefore the depreciation

1 expenses should be reduced by the amortization of CIAC. ORS's net depreciation  
2 expense was \$82,396 with the resulting adjustment of \$52,100 (\$82,396 less the per  
3 book amount of \$30,296). See Audit Exhibit SGS-5 for the detailed computation of  
4 Depreciation Expense.

5 Adjustment No. 14 – Gross Receipts Taxes – HPUC and ORS propose to reflect the  
6 gross receipts taxes for the as adjusted revenue for the complete system. HPUC used  
7 a factor of 1.12528% for a total adjustment of \$5,008. ORS used the most recent  
8 gross receipts factor of 0.83772% for a total adjustment of \$3,728.

9 Adjustment No. 15 – Property Taxes – HPUC proposes to adjust property taxes for  
10 1.0% of pro forma plant costs for a total adjustment of \$54,759. ORS proposes to  
11 adjust for taxes actually paid to Beaufort County for real property for HPUC. ORS's  
12 adjustment amounts to \$603.

13 Adjustment No. 16 – Payroll Taxes - HPUC and ORS propose to adjust for payroll  
14 taxes for the complete system number of employees. HPUC proposes a total  
15 adjustment of \$17,838 using total wages of \$233,173 at 7.65%. ORS proposes a total  
16 adjustment of \$14,567 using total wages of \$190,431 at 7.65%.

17 Adjustment No. 17 – Income Taxes – ORS and HPUC propose to adjust for state and  
18 federal income taxes on as adjusted taxable income. ORS used the state tax rate of  
19 5% and the federal income tax graduated rates to compute as adjusted taxes of \$-0-,  
20 resulting in an adjustment of \$14,775. HPUC used a state tax rate of 4.066% and  
21 composite rates of 22.178% for water and 32.474% for sewer.

1     Adjustment No. 18 – Gross Plant in Service – ORS and HPUC propose to adjust  
2     plant in service for the elevated water storage tank and new groundwater well. In  
3     addition, ORS proposes to include a proportionate share of a truck used by HPUC,  
4     wastewater treatment upgrades completed in October 2004, and expenses associated  
5     with taps for a total adjustment of \$1,167,853. HPUC proposes an adjustment of  
6     \$1,116,695.

7     Adjustment No. 19 – Accumulated Depreciation – ORS and HPUC propose to adjust  
8     accumulated depreciation based on the system utilization percentages. The  
9     utilization percentages are based on each year's total Equivalent Residential  
10    Customers divided by the total Equivalent Residential Customers at complete system  
11    build-out. Therefore accumulated depreciation at complete system build-out reflects  
12    the actual level of customer usage over the years. The complete system accumulated  
13    depreciation amounted to \$1,770,980 for an adjustment of \$1,530,898 (\$1,770,980  
14    less \$240,082 per books).

15   Adjustment No. 20 – Construction Work In Progress – ORS and HPUC propose to  
16   remove completed projects for the new groundwater well and elevated water storage  
17   tank from construction work in progress and book to plant in service since these  
18   projects are essentially completed. The total adjustment amounted to (\$1,116,695).

19   Adjustment No. 21 – Contributions in Aid of Construction (CIAC) - ORS and HPUC  
20   propose to adjust CIAC to reflect the complete system number of customers. ORS  
21   and HPUC propose to include total CIAC of \$1,715,000, resulting in an adjustment  
22   of (\$1,251,000) (\$1,715,000 - \$464,000 per books).

---

1      Adjustment No. 22 – Amortization of Contributions in Aid of Construction (CIAC) –

2      ORS and HPUC propose to adjust the amortization of CIAC to reflect the complete  
3      system number of customers. HPUC proposes total amortization of \$492,980,  
4      resulting in an adjustment of \$410,240 (\$492,980 - \$82,740 per books). ORS's  
5      adjustment reflects the amortization of CIAC using the system utilization factors  
6      resulting in a total amortization of \$330,868. The adjustment amounts to \$248,128  
7      (\$330,868 - \$82,740 per books).

8      Adjustment No. 23 – Cash Working Capital– ORS and HPUC propose to adjust cash  
9      working capital for the complete system level of customers based on a 1/5 working  
10     capital factor. The factor is based on HPUC's billing and collection cycle. HPUC  
11     bills the customers quarterly in arrears. The service is provided an average of 45  
12     days prior to billing the customer for the service and it takes HPUC an average of 30  
13     days before the customer's payment is received. The result is a 75-day lag period or  
14     approximately 1/5 of a year. HPUC proposes an adjustment of \$708 and ORS  
15     proposes an adjustment of \$45,008 which includes additional Bad Debt Expense  
16     calculated on Proposed Increase. The computation of Cash Working Capital is  
17     shown on SGS – 7.

18     Adjustment No. 24 – Unamortized Balance – HPUC proposes to include the  
19     remaining unamortized balance of \$45,000 for rate case expenses in rate base. ORS  
20     proposes to include the amortization of rate case expenses in operating expenses but  
21     not allow the unamortized portion in rate base, resulting in a sharing of the expenses  
22     between the customer and stockholder.

1     Adjustment No. 25 – Operating Revenues - Proposed Increase - The  
2     Water/Wastewater Department proposes to adjust the revenues to reflect the  
3     proposed increase for the complete system. Dawn Hipp provided the revenue  
4     adjustment for water and sewer operations using the complete system number of  
5     customers and proposed rates. The Proposed Service Revenues computed by the  
6     Water/Wastewater Department totaled \$991,684 less the as adjusted revenue of  
7     \$445,051, for an adjustment of \$546,633 (water - \$176,946 and sewer - \$369,687).

8     Adjustment No. 26 – Bad Debt Expense – Proposed Increase – ORS and HPUC  
9     propose to adjust bad debt expense to reflect 2.0% of complete system revenue for  
10    proposed customers at proposed rates. ORS water and wastewater specialist Dawn  
11    Hipp verified that the factor was reasonable after her review of billing records.  
12    ORS's total adjustment amounted to \$10,933. HPUC's adjustment was for \$10,936.

13   Adjustment No. 27 – Gross Receipts Taxes – Proposed Increase - HPUC and ORS  
14   propose to reflect the gross receipts taxes for the proposed revenue for the complete  
15   system. HPUC used a factor of 1.12528% for a total adjustment of \$6,151. ORS  
16   used the most recent gross receipts factor of 0.83772% for a total adjustment of  
17   \$4,579.

18   Adjustment No. 28 – Income Taxes – ORS and HPUC propose to adjust state and  
19   federal income taxes on the proposed taxable income. ORS used the state tax rate of  
20   5% and the federal income tax graduated rates to compute an income tax adjustment  
21   of \$125,346. HPUC used a state tax rate of 4.066% and composite rate of 18.133%  
22   for water and 23.341% for sewer to compute total income taxes of \$150,266.

1   **Q.   PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

2   A.   Audit Exhibit SGS-5 shows the Depreciation Expense Adjustment.   Audit Exhibit  
3       SGS-6 shows the Computation of Income Taxes.   Audit Exhibit SGS-7 shows the  
4       Cash Working Capital Allowance.   Audit Exhibit SGS-8 shows the Return on  
5       Common Equity.   Audit Exhibit SGS-9 shows the Income Statement for the Test  
6       Year Ended June 30, 2004.   Audit Exhibit SGS-10 shows the Balance Sheet for the  
7       Test Year Ended June 30, 2004.

8   **Q.   DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

9   A.   Yes, it does.

10



**REPORT OF THE AUDIT DEPARTMENT  
THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2005-34-W/S**

**HAIG POINT UTILITY COMPANY, INC.**

**REPORT OF THE AUDIT DEPARTMENT**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2005-34-W/S**

**HAIG POINT UTILITY COMPANY, INC.**

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**REPORT OF THE AUDIT DEPARTMENT**

**THE OFFICE OF REGULATORY STAFF**

**DOCKET NO. 2005-34-W/S**

**HAIG POINT UTILITY COMPANY, INC.**

**SYNOPSIS**

---

**Complete System**

Amount Requested - Water ----- \$176,946  
- Sewer-----\$369,687  
- Combined-----\$546,633

<u>Return on Rate Base:</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
Per Books - HPUC-----	(0.94%)	0.08%	(2.00%)
As Adjusted-----	( 4.09%)	( 8.08%)	(1.53%)
After Proposed Increase-----	12.38%	7.53%	15.49%

---

<u>Return on Common Equity:</u>	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
As Adjusted-----	(15.69%)	(23.67%)	(10.56%)
After Proposed Increase-----	17.26%	7.57%	23.49%

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**REPORT OF THE AUDIT DEPARTMENT**  
**THE OFFICE OF REGULATORY STAFF**  
**DOCKET NO. 2005-34-W/S**  
**HAIG POINT UTILITY COMPANY, INC.**

**ANALYSIS**

ORS has performed a review of the Application of Haig Point Utility Company, Inc. (hereinafter referred to as "HPUC") along with certain HPUC's accounting records, relative to its application for authority to increase certain rates and charges in Docket No. 2005-34-W/S.

HPUC is a water and wastewater utility operating in the state of South Carolina. HPUC furnishes both water and sewer service to residential and commercial customers on Daufuskie Island in Beaufort County. HPUC's home office is located in Montvale, NJ. HPUC is a wholly-owned subsidiary of International Paper Company.

ORS respectfully submits the results of its review as follows:

1. HPUC filed an application on February 24, 2005 for approval of rates and charges for water and sewer services provided to its residential and commercial customers.
2. This matter is set for public hearing on Thursday, July 18, 2005 at 11:00 am.
3. HPUC's application uses a test year ending June 30, 2004.
4. HPUC's rates were established in 1988, and HPUC has not had a rate filing since that time.

ORS's exhibits related to HPUC's proposed increase are as follows:

**AUDIT EXHIBIT SGS-1: OPERATING EXPERIENCE, RATE BASE, AND RATES OF RETURN-COMBINED**

Shown in this exhibit is HPUC's Operating Experience, Rate Base, and Rates of Return for combined operations for the test year ended June 30, 2004 for the complete system analysis. The exhibit's format is designed to reflect per book information and applicable accounting and pro forma adjustments necessary to correct or normalize the results of HPUC's test year operations and to show the results of the complete system methodology.

ORS verified the per book balances to the books and records of HPUC. The book figures reflect that Operating Revenues for HPUC totaled \$228,256, Total Operating Expenses were \$274,362 and Net Income for Return totaled (\$46,106). HPUC's per book Rate Base was \$4,900,714. As shown in the application, HPUC computed a per book Rate of Return on Rate Base of -0.94% using Net Operating Income of (\$46,106) and a rate base of \$4,900,714. The net effect of the accounting and pro forma adjustments produced Operating Revenues of \$445,051, Net Income for Return of (\$100,834), and a Total Rate Base of \$2,463,109. Using the Net Income for Return and Total Rate Base, ORS computed a Rate of Return on Rate Base of (4.09%) for as adjusted operations for the complete system.

HPUC has requested an increase in rates which would produce additional gross annual revenues for the Complete System of \$546,633, comprised of a water increase of \$176,946 and a sewer increase of \$369,687. ORS adjusted for bad debt expense, gross receipts taxes and income taxes associated with the proposed increase for the complete system.

After the proposed increase, Total Operating Revenues were \$991,684 and Net Income for Return was \$304,941. Total Rate Base after the proposed increase was \$2,463,109. Using Net Income for Return and Total Rate Base after the proposed increase, ORS computed a Rate of Return on Rate

Base of 12.38% for the Complete System.

**AUDIT EXHIBIT SGS-2: OPERATING EXPERIENCE, RATE BASE AND RATES OF RETURN- WATER**

Shown in this ORS exhibit is the Operating Experience, Rate Base, and Rate of Return for HPUC's Water Operations for the complete system.

**AUDIT EXHIBIT SGS-3: OPERATING EXPERIENCE, RATE BASE, AND RATES OF RETURN-SEWER**

Shown in this ORS exhibit is the Operating Experience, Rate Base, and Rate of Return for HPUC's Sewer Operations for the complete system.

**AUDIT EXHIBIT SGS-4: EXPLANATION OF ACCOUNTING AND PRO FORMA ADJUSTMENTS- WATER, SEWER, AND COMBINED**

Shown in this exhibit are the details of accounting and pro forma adjustments made to correct or normalize HPUC's water and sewer operations and to reflect the proposed increase for the complete system. For comparative purposes, ORS and HPUC's adjustments are both presented in this exhibit.

**AUDIT EXHIBIT SGS-5: DEPRECIATION EXPENSE ADJUSTMENT**

Shown in this exhibit are ORS's computation of the complete system Depreciation Expense and the amortization of Contributions in Aid of Construction (CIAC) for the test year. The Depreciation rate of 2.0% (50 years) was used for water and sewer mains, 3.125% (32 years) was used for the wastewater treatment plant, and 16.66% (6 years) for vehicles. However since plant in service is being depreciated with the system utilization factors, plant would not be fully depreciated by the end of its estimated service life. These rates were recommended by ORS's Water/Wastewater Department.

#### **AUDIT EXHIBIT SGS-6: COMPUTATION OF INCOME TAXES**

Shown in this exhibit is ORS's computation of State and Federal Income Taxes based on taxable income after accounting and pro forma adjustments and after the effect of the requested increase. ORS used the state tax rate of 5% and federal graduated tax rates.

#### **AUDIT EXHIBIT SGS-7: CASH WORKING CAPITAL ALLOWANCE**

Shown in ORS's exhibit is the calculation of cash working capital based on as adjusted operations at June 30, 2004. ORS uses a seventy-five day cash working capital allowance to reflect HPUC's billing and collection cycle.

#### **AUDIT EXHIBIT SGS-8: RETURN ON COMMON EQUITY – WATER, SEWER, AND COMBINED**

HPUC's return on common equity is computed before and after the requested increase for complete system. The rate base, as shown on Audit Exhibit SGS-1, is allocated among the various classes of debt and equity according to the respective ratios as computed using a hypothetical 50/50 capital structure.

ORS computed the amount of total income for return necessary to cover an embedded cost rate of 7.50% on long-term debt. The remainder of total income for return for combined operations produces a return of (12.49%) on common equity before the requested increase. The overall cost of capital after accounting and pro forma adjustments is (2.50%). Such overall cost equals the rate of return on rate base shown on Audit Exhibit SGS-1.

After the requested increase of \$546,633 income available to common equity increases to \$212,574 and return on common equity increases to 17.26%. Overall cost of capital as shown in this exhibit equals 12.38%. Such overall cost of capital equals the rate of return on rate base on Audit Exhibit SGS-1.

Included in this exhibit is the Return on Common Equity as allocated to HPUC's water and sewer operations.

**AUDIT EXHIBIT SGS-9: INCOME STATEMENT**

HPUC's Income Statement for the test year ending June 30, 2004 is reflected in this exhibit.

ORS verified the income statement to the books and records of HPUC.

**AUDIT EXHIBIT SGS-10: BALANCE SHEET**

Shown in this exhibit is the Balance Sheet of HPUC as of June 30, 2004. ORS verified the balances contained in this statement to the books and records of HPUC.



Haig Point Utility Company, Inc.  
Operating Experience, Rate Base and Rates of Return  
For the Test Year Ended June 30, 2004  
Combined

Description	Complete System				
	Per Company Books	Accounting & Pro Forma Adjustments	As Adjusted	Effect of Proposed Increase	After Proposed Increase
	\$	\$	\$	\$	\$
<b><u>Operating Revenues:</u></b>					
Water Service Revenues	98,423	180,376 (A)	278,799	176,946 (N)	455,745
Sewer Service Revenues	47,697	118,555 (A)	166,252	369,687 (N)	535,939
Availability Revenues - W & S	82,136	(82,136) (A)	0	0	0
<b><u>Total Operating Revenues</u></b>	<b>228,256</b>	<b>216,795</b>	<b>445,051</b>	<b>546,633</b>	<b>991,684</b>
<b><u>Operating Expenses:</u></b>					
Operating & Maintenance Expenses	185,387	197,051 (B)	382,438	0	382,438
Administrative & General Expenses	73,454	(11,301) (C)	62,153	10,933 (O)	73,086
Depreciation & Amortization Expenses	30,296	52,099 (D)	82,395	0	82,395
Taxes Other Than Income	0	18,898 (E)	18,898	4,579 (P)	23,477
Income Taxes	(14,775)	14,775 (F)	0	125,346 (Q)	125,346
<b><u>Total Operating Expenses</u></b>	<b>274,362</b>	<b>271,522</b>	<b>545,884</b>	<b>140,858</b>	<b>686,743</b>
<b><u>Total Operating Income</u></b>	<b>(46,106)</b>	<b>(54,727)</b>	<b>(100,833)</b>	<b>405,775</b>	<b>304,941</b>
Customer Growth	0	0	0	0	0
<b><u>Net Income for Return</u></b>	<b>(46,106)</b>	<b>(54,727)</b>	<b>(100,833)</b>	<b>405,775</b>	<b>304,941</b>
<b><u>Original Cost Rate Base:</u></b>					
Gross Plant in Service	4,359,264	1,167,853 (G)	5,527,117	0	5,527,117
Accumulated Depreciation	(240,082)	(1,530,899) (H)	(1,770,981)	0	(1,770,981)
Net Plant in Service	4,119,182	(363,046)	3,756,136	0	3,756,136
Construction Work In Progress	1,116,695	(1,116,695) (I)	0	0	0
Contributions in Aid of Construction	(464,000)	(1,251,000) (J)	(1,715,000)	0	(1,715,000)
Accumulated Amortization of CIAC	82,740	248,128 (K)	330,868	0	330,868
Cash Working Capital	46,097	45,008 (L)	91,105	0	91,105
Unamortized Balances	0	0 (M)	0	0	0
<b><u>Total Rate Base</u></b>	<b>4,900,714</b>	<b>(2,437,605)</b>	<b>2,463,109</b>	<b>0</b>	<b>2,463,109</b>
<b><u>Return on Rate Base</u></b>	<b>-0.94%</b>		<b>-4.09%</b>		<b>12.38%</b>
<b><u>Interest Expense</u></b>	<b>0</b>		<b>92,367</b>		<b>92,367</b>
<b><u>Operating Margin</u></b>	<b>-20.20%</b>		<b>-43.41%</b>		<b>21.44%</b>

**Haig Point Utility Company, Inc.**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended June 30, 2004**  
**Water**

Description	Per Company Books	Complete System			
		Accounting & Pro Forma Adjustments	As Adjusted	Proposed Increase	After Proposed Increase
	\$	\$	\$	\$	\$
<b><u>Operating Revenues:</u></b>					
Water Service Revenues	98,423	180,376 (A)	278,799	176,946 (N)	455,745
Availability Revenues	41,068	(41,068) (A)	0	0	0
<b><u>Total Operating Revenues</u></b>	<b><u>139,491</u></b>	<b><u>139,308</u></b>	<b><u>278,799</u></b>	<b><u>176,946</u></b>	<b><u>455,745</u></b>
<b><u>Operating Expenses:</u></b>					
Operating & Maintenance Expenses	87,464	187,217 (B)	274,681	0	274,681
Administrative & General	51,929	(13,888) (C)	38,041	3,539 (O)	41,580
Depreciation & Amortization Expenses	12,846	17,462 (D)	30,308	0	30,308
Taxes Other Than Income	0	13,629 (E)	13,629	1,482 (P)	15,111
Income Taxes	(14,799)	14,799 (F)	0	21,493 (Q)	21,493
<b><u>Total Operating Expenses</u></b>	<b><u>137,440</u></b>	<b><u>219,219</u></b>	<b><u>356,659</u></b>	<b><u>26,514</u></b>	<b><u>383,173</u></b>
<b><u>Total Operating Income</u></b>	<b><u>2,051</u></b>	<b><u>(79,911)</u></b>	<b><u>(77,860)</u></b>	<b><u>150,432</u></b>	<b><u>72,572</u></b>
Customer Growth	0	0	0	0	0
<b><u>Net Income for Return</u></b>	<b><u>2,051</u></b>	<b><u>(79,911)</u></b>	<b><u>(77,860)</u></b>	<b><u>150,432</u></b>	<b><u>72,572</u></b>
<b><u>Original Cost Rate Base:</u></b>					
Gross Plant in Service	1,731,215	1,124,203 (G)	2,855,418	0	2,855,418
Accumulated Depreciation	(106,504)	(774,129) (H)	(880,633)	0	(880,633)
Net Plant in Service	1,624,711	350,074	1,974,785	0	1,974,785
Construction Work In Progress	1,116,695	(1,116,695) (I)	0	0	0
Contributions in Aid of Construction	(353,000)	(982,000) (J)	(1,335,000)	0	(1,335,000)
Accumulated Amort. of CIAC	63,150	197,059 (K)	260,209	0	260,209
Cash Working Capital	46,097	17,155 (L)	63,252	0	63,252
Unamortized Balances	0	0 (M)	0	0	0
<b><u>Total Rate Base</u></b>	<b><u>2,497,653</u></b>	<b><u>(1,534,407)</u></b>	<b><u>963,246</u></b>	<b><u>0</u></b>	<b><u>963,246</u></b>
<b><u>Return on Rate Base</u></b>	<b><u>0.08%</u></b>		<b><u>-8.08%</u></b>		<b><u>7.53%</u></b>
<b><u>Interest Expense</u></b>	<b><u>0</u></b>		<b><u>36,122</u></b>		<b><u>36,122</u></b>
<b><u>Operating Margin</u></b>	<b><u>1.47%</u></b>		<b><u>-40.88%</u></b>		<b><u>8.00%</u></b>

**Haig Point Utility Company, Inc.**  
**Operating Experience, Rate Base and Rates of Return**  
**For the Test Year Ended June 30, 2004**  
**Sewer**

Description	Complete System				
	Per Company Books	Accounting & Pro Forma Adjustments	As Adjusted	Proposed Increase	After Proposed Increase
	\$	\$	\$	\$	\$
<b><u>Operating Revenues:</u></b>					
Sewer Service Revenues	47,697	118,555 (A)	166,252	369,687 (N)	535,939
Availability Revenues	41,068	(41,068) (A)	0	0	0
<b><u>Total Operating Revenues</u></b>	<b>88,765</b>	<b>77,487</b>	<b>166,252</b>	<b>369,687</b>	<b>535,939</b>
<b><u>Operating Expenses:</u></b>					
Operating & Maintenance Expenses	97,923	9,834 (B)	107,757	0	107,757
Administrative & General	21,525	2,587 (C)	24,112	7,394 (O)	31,506
Depreciation & Amortization Expenses	17,450	34,638 (D)	52,088	0	52,088
Taxes Other Than Income	0	5,269 (E)	5,269	3,097 (P)	8,366
Income Taxes	24	(24) (F)	0	103,853 (Q)	103,853
<b><u>Total Operating Expenses</u></b>	<b>136,922</b>	<b>52,304</b>	<b>189,226</b>	<b>114,344</b>	<b>303,570</b>
<b><u>Total Operating Income</u></b>	<b>(48,157)</b>	<b>25,183</b>	<b>(22,974)</b>	<b>255,343</b>	<b>232,369</b>
Customer Growth	0	0	0	0	0
<b><u>Net Income for Return</u></b>	<b>(48,157)</b>	<b>25,183</b>	<b>(22,974)</b>	<b>255,343</b>	<b>232,369</b>
<b><u>Original Cost Rate Base:</u></b>					
Gross Plant in Service	2,628,049	43,650 (G)	2,671,699	0	2,671,699
Accumulated Depreciation	(133,578)	(756,769) (H)	(890,347)	0	(890,347)
Net Plant in Service	2,494,471	(713,119)	1,781,351	0	1,781,351
Construction Work In Progress	0	0 (I)	0	0	0
Contributions In Aid of Construction	(111,000)	(269,000) (J)	(380,000)	0	(380,000)
Accumulated Amortization of CIAC	19,590	51,069 (K)	70,659	0	70,659
Cash Working Capital	0	27,853 (L)	27,853	0	27,853
Unamortized Balances	0	0 (M)	0	0	0
<b><u>Total Rate Base</u></b>	<b>2,403,061</b>	<b>(903,197)</b>	<b>1,499,864</b>	<b>0</b>	<b>1,499,864</b>
<b><u>Return on Rate Base</u></b>	<b>-2.00%</b>		<b>-1.53%</b>		<b>15.49%</b>
<b><u>Interest Expense</u></b>	<b>0</b>		<b>56,245</b>		<b>56,245</b>
<b><u>Operating Margin</u></b>	<b>-54.25%</b>		<b>-47.65%</b>		<b>32.86%</b>

Haig Point Utility Company, Inc.  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended June 30, 2004

Complete System			
Description	Combined \$	Water \$	Sewer \$
<b>(A) Operating Revenues</b>			
<b>As Adjusted</b>			
1 ORS and HPUC propose to adjust operating revenues to reflect complete system number of customers at current rates.			
Per ORS	298,931	180,376	118,555
Per HPUC	298,931	180,376	118,555
2 ORS and HPUC propose to remove Availability Billing for the complete system, as the complete system reflects customers at total build-out of the system. All taps will be in place and no availability fees will be necessary.			
Per ORS	(82,136)	(41,068)	(41,068)
Per HPUC	(82,136)	(41,068)	(41,068)
<b>(B) Operating and Maintenance</b>			
3 ORS proposes to adjust operating and maintenance expenses to reflect 60/40 split with Melrose Utility Company, Inc.			
Per ORS	4,307	0	4,307
Per HPUC	0	0	0
4 ORS and HPUC propose to increase the level of wages for the current 2 employees to reflect the wages of 6 employees at test period costs for complete system.			
Per ORS	112,704	127,401	(14,697)
Per HPUC	155,449	40,110	115,339
5 ORS and HPUC propose to increase the level of repair and maintenance costs for plant facilities by the percentage of plant additions.			
Per ORS	30,955	30,955	0
Per HPUC	30,955	30,955	0
6 ORS and HPUC propose to increase the level of operating supply costs for increased system demand.			
Per ORS	152	152	0
Per HPUC	152	152	0
7 ORS and HPUC propose to increase the level of office equipment rental for increased number of customers.			
Per ORS	1,349	1,349	0
Per HPUC	1,349	1,349	0

Haig Point Utility Company, Inc.  
 Explanation of Accounting and Pro Forma Adjustments  
 For the Test Year Ended June 30, 2004

Complete System			
Description	Combined	Water	Sewer
	\$	\$	\$
8 ORS and HPUC propose to increase the level of Power Costs for increased system demand.			
Per ORS	51,365	29,826	21,539
Per HPUC	49,692	29,826	19,866
9 ORS proposes to remove expenses associated with installing taps. These costs are considered capital expenditures and are included in plant in service.			
Per ORS	(3,781)	(2,466)	(1,315)
Per HPUC	0	0	0
<b>Total Operating and Maintenance</b>	<b>197,051</b>	<b>187,217</b>	<b>9,834</b>

**(C) General and Administrative**

10 ORS and HPUC propose to adjust Bad Debt Expense to reflect 2.0% of complete system revenue under present rates.			
Per ORS	(18,711)	(11,298)	(7,413)
Per HPUC	(18,711)	(11,298)	(7,413)
11 ORS and HPUC propose to reflect the amortization of actual rate case expenses of \$80,000 over a 4-year period.			
Per ORS	20,000	10,000	10,000
Per HPUC	20,000	10,000	10,000
12 ORS proposes to remove nonallowable legal expenses from the test year.			
Per ORS	(12,590)	(12,590)	0
Per HPUC	0	0	0
<b>Total General and Administrative</b>	<b>(11,302)</b>	<b>(13,888)</b>	<b>2,587</b>

**(D) Depreciation and Amortization Expense**

13 ORS and HPUC propose to reflect the annual depreciation for complete system plant in service. ORS has reduced depreciation expenses by the amortization of CIAC.			
Per ORS	52,099	17,462	34,638
Per HPUC	85,001	44,113	40,888

**(E) Taxes Other Than Income**

14 HPUC proposes to reflect the revenue taxes of 1.12528% on pro forma revenue under present rates. ORS proposes to reflect revenue taxes on present rates using the latest gross receipts factor of 0.83772%.			
Per ORS	3,728	2,335	1,393
Per HPUC	5,008	3,137	1,871

Haig Point Utility Company, Inc.  
Explanation of Accounting and Pro Forma Adjustments  
For the Test Year Ended June 30, 2004

Complete System

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
15 ORS and HPUC propose to adjust for actual property taxes assessed on real property for HPUC.			
Per ORS	603	14	589
Per HPUC	54,759	28,479	26,280
16 ORS and HPUC propose to reflect payroll taxes for the proposed new employees.			
Per ORS	14,567	11,280	3,287
Per HPUC	17,838	4,603	13,235
<b><u>Total Taxes Other Than Income</u></b>	<b><u>18,898</u></b>	<b><u>13,629</u></b>	<b><u>5,269</u></b>
<b><u>(F) Income Taxes</u></b>			
17 HPUC and ORS propose to adjust for state and federal income taxes for as adjusted operations. See computation of Income Taxes Schedule in Audit Exhibit SGS-6.			
Per ORS	<u>14,775</u>	<u>14,799</u>	<u>(24)</u>
Per HPUC	<u>(89,699)</u>	<u>(11,127)</u>	<u>(78,572)</u>
<b><u>(G) Plant In Service</u></b>			
18 ORS and HPUC propose to increase plant in service for the new groundwater well, elevated water storage tank, truck and wastewater treatment improvements.			
Per ORS	<u>1,167,853</u>	<u>1,124,203</u>	<u>43,650</u>
Per HPUC	<u>1,116,695</u>	<u>1,116,695</u>	<u>0</u>
<b><u>(H) Accumulated Depreciation</u></b>			
19 ORS and HPUC propose to adjust accumulated depreciation for the complete system depreciation expense. A usage percentage based on the number of customers was used to compute the accumulated depreciation expense.			
Per ORS	<u>(1,530,898)</u>	<u>(774,129)</u>	<u>(756,769)</u>
Per HPUC	<u>(1,530,898)</u>	<u>(774,129)</u>	<u>(756,769)</u>
<b><u>(I) Construction Work In Progress</u></b>			
20 ORS and HPUC propose to remove from Construction Work in Progress costs associated with the new groundwater well and elevated water storage tank since these projects are essentially complete.			
Per ORS	<u>(1,116,695)</u>	<u>(1,116,695)</u>	<u>0</u>
Per HPUC	<u>(1,116,695)</u>	<u>(1,116,695)</u>	<u>0</u>
<b><u>(J) Contributions in Aid of Construction -CIAC</u></b>			
21 ORS and HPUC propose to increase Contributions in Aid of Construction to reflect the Complete System.			
Per ORS	<u>(1,251,000)</u>	<u>(982,000)</u>	<u>(269,000)</u>
Per HPUC	<u>(1,251,000)</u>	<u>(982,000)</u>	<u>(269,000)</u>

**Haig Point Utility Company, Inc.**  
**Explanation of Accounting and Pro Forma Adjustments**  
**For the Test Year Ended June 30, 2004**

**Complete System**

<u>Description</u>	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<b><u>(K) Amortization of Contributions in Aid of Construction</u></b>			
22 ORS and HPUC propose to increase the amortization of Contributions in Aid of Construction to reflect the complete system using system utilization factors.			
Per ORS	248,128	197,059	51,069
Per HPUC	410,240	319,120	91,120
<b><u>(L) Cash Working Capital</u></b>			
23 HPUC and ORS propose to adjust Cash Working Capital for as adjusted expenses using the working capital ratio of 1/5 of operating and maintenance expenses. See Audit Exhibit SGS-7.			
Per ORS	45,008	17,155	27,853
Per HPUC	708	708	0
<b><u>(M) Unamortized Balances</u></b>			
24 HPUC proposes to include unamortized balances in rate base. ORS proposes only to include the expense portion and not the unamortized balances, creating a sharing of the expenses between the ratepayer and HPUC.			
Per ORS	0	0	0
Per HPUC	45,000	22,500	22,500
<b><u>(N) Operating Revenues - Proposed Increase</u></b>			
25 ORS and HPUC propose to increase operating revenues for the complete system number of customers at proposed rates.			
Per ORS	546,833	176,946	369,887
Per HPUC	546,633	176,946	369,887
<b><u>(O) Bad Debt Expenses - Proposed Revenue</u></b>			
26 ORS and HPUC propose to adjust bad debt expense for the proposed revenue for a complete system.			
Per ORS	10,933	3,539	7,394
Per HPUC	10,936	3,541	7,395
<b><u>(P) Taxes Other Than Income - Proposed Increase</u></b>			
27 ORS and HPUC propose to adjust gross receipts taxes for the proposed revenue based on a complete system.			
Per ORS	4,579	1,482	3,097
Per HPUC	6,151	1,991	4,160
<b><u>(Q) Income Taxes - Proposed Increase</u></b>			
28 ORS and HPUC propose to reflect state and federal income taxes for the proposed revenue for a complete system.			
Per ORS	125,346	21,493	103,853
Per HPUC	150,266	42,217	108,049

**Haig Point Utility Company, Inc.**  
**Depreciation Expense Adjustment**  
**Test Year Ended June 30, 2004**

	<u>Combined</u>	<u>Water</u>	<u>Sewer</u>
	\$	\$	\$
<b>Water &amp; Sewer Mains</b>	3,425,672	1,377,855	2,047,817
<b>Wells, Supply Main &amp; Appert</b>	353,360	353,360	0
<b>Well #3 - Completed In 2005</b>	377,749	377,749	0
<b>Elevated Storage Tank-Completed in 2005</b>	738,946	738,946	0
<b>Tap Expenses</b>	3,780	2,465	1,315
<b>Outfall Main</b>	66,704	0	66,704
<b>Total</b>	4,966,211	2,850,375	2,115,836
<b>Depreciation (50 years) *</b>	2.00%	2.00%	2.00%
	<u>99,325</u>	<u>57,008</u>	<u>42,317</u>
<b>Total Wastewater Treatment Plant</b>	555,864	0	555,864
<b>Depreciation (32 years) *</b>	3.125%	3.125%	3.125%
	<u>17,371</u>	<u>0</u>	<u>17,371</u>
<b>Vehicles</b>	5,043	5,043	0
LESS: Fully Depreciated Assets	(5,043)	(5,043)	0
<b>Depreciation (6 years)</b>	16.66%	16.66%	16.66%
	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Depreciation Expense - ORS</b>	116,696	57,008	59,688
<b><u>Amortization of Contributions In Aid of Construction (CIAC)</u></b>			
<b>Gross CIAC</b>	(1,715,000)	(1,335,000)	(380,000)
<b>Amortization Period (50 years)</b>	2.000%	2.000%	2.000%
<b>CIAC Amortization</b>	<u>(34,300)</u>	<u>(26,700)</u>	<u>(7,600)</u>
<b><u>Net Depreciation Expense</u></b>	<u>82,396</u>	<u>30,308</u>	<u>52,088</u>
<b><u>Less: Depreciation Expense- Per Books</u></b>	<u>30,296</u>	<u>12,846</u>	<u>17,450</u>
<b><u>Depreciation Expense Adjustment - ORS</u></b>	<u>52,100</u>	<u>17,462</u>	<u>34,638</u>

\* Stated Service Life Extended since Depreciation Expense is computed with Utilization Factors.



**Audit Exhibit SGS-6**

**Haig Point Utility Company, Inc.  
Computation of Income Taxes  
For the Test Year Ended June 30, 2004**

	<b>As Adjusted</b>		
	<b>Combined Operations</b>	<b>Water Operations</b>	<b>Sewer Operations</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Operating Revenue As Adjusted	445,051	278,799	166,252
Operating Expenses As Adjusted	545,884	356,659	189,226
Net Operating Income Before Taxes	(100,833)	(77,860)	(22,974)
Less: Annualized Interest Expense	92,367	36,122	56,245
Taxable Income - State	(193,200)	(113,982)	(79,219)
State Income Taxes @ 5%	0	0	0
Taxable Income - Federal	(193,200)	(113,982)	(79,219)
Federal Income Taxes - 1st 50,000 @ 15%	0	0	0
Next \$25,000 @25%	0	0	0
Next \$25,000 @34%	0	0	0
Total State and Federal Income Taxes	0	0	0
Less: Income Taxes Per Book	(14,775)	(14,799)	24
Adjustment	14,775	14,799	(24)
	<b>After Proposed Increase</b>		
	<b>Combined Operations</b>	<b>Water Operations</b>	<b>Sewer Operations</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Operating Revenue After Proposed Increase	991,684	455,745	535,939
Operating Expenses After Proposed Increase	561,396	361,679	199,716
Net Operating Income Before Taxes	430,288	94,066	336,223
Less: Annualized Interest Expense	92,367	36,122	56,245
Taxable Income - State	337,921	57,944	279,978
State Income Taxes @ 5%	16,896	2,897	13,999
Taxable Income - Federal	321,025	55,047	265,979
Federal Income Taxes - 1st 50,000 @ 15%	7,500	1,286	6,214
Next \$25,000 @25%	6,250	1,072	5,178
Next \$25,000 @34%	8,500	1,458	7,042
\$100,000 - \$335,000 @ 39%	86,200	14,781	71,419
Over \$335,000 @ 34%	0	0	0
Total State and Federal Income Taxes	125,346	21,493	103,853
Less: Income Taxes As Adjusted	0	0	0
Adjustment	125,346	21,493	103,853

Combined Federal Income Taxes allocated between water and sewer based on percentage of Federal Taxable Income.

**Haig Point Utility Company, Inc.**  
**Cash Working Capital Allowance**  
**For the Test Year Ended June 30, 2004**

	<u>Combined Operations</u>	<u>Water Operations</u>	<u>Sewer Operations</u>
Operating and Maintenance - As Adjusted	382,438	274,681	107,757
General and Administrative - As Adjusted (Includes additional Bad Debt Expense calculated on Proposed Increase)	<u>73,086</u>	<u>41,580</u>	<u>31,506</u>
Total Expenses for Computation	455,524	316,261	139,263
Allowable Rate (1/5 of O & M)	<u>20.00%</u>	<u>20.00%</u>	<u>20.00%</u>
Computed Cash Working Capital - As Adjusted	91,105	63,252	27,853
Cash Working Capital - Per Company	<u>46,097</u>	<u>46,097</u>	<u>0</u>
<b>Cash Working Capital Adjustment - ORS</b>	<b><u>45,008</u></b>	<b><u>17,155</u></b>	<b><u>27,853</u></b>
Cash Working Capital Adjustment - HPUC	<u>708</u>	<u>708</u>	<u>0</u>

Haig Point Utility Company, Inc.  
Return On Common Equity  
Capital Structure at June 30, 2004

Audit Exhibit SGS-8

Description	Capital Structure	Water				After Proposed Increase			
		Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
		%	\$	%	%	\$	\$	%	%
Long-Term Debt	1,923,650	50.00%	481,624	7.50%	3.75%	36,122	481,623	7.50%	3.75%
Common Equity	1,923,650	50.00%	481,623	-23.67%	-11.84%	(113,982)	481,623	7.57%	3.80%
Totals	3,847,300	100.00%	963,246		-8.09%	(77,860)	963,246		7.55%

Description	Capital Structure	Sewer				After Proposed Increase			
		Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
		%	\$	%	%	\$	\$	%	%
Long-Term Debt	1,923,650	50.00%	749,933	7.50%	3.75%	56,245	749,932	7.50%	3.75%
Common Equity	1,923,650	50.00%	749,932	-10.56%	-5.28%	(79,219)	749,932	23.49%	11.75%
Totals	3,847,300	100.00%	1,499,864		-1.53%	( 22,974)	1,499,864		15.50%

Description	Capital Structure	Combined				After Proposed Increase			
		Ratio	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return
		%	\$	%	%	\$	\$	%	%
Long-Term Debt	1,923,650	50.00%	1,231,555	7.50%	3.75%	92,367	1,231,555	7.50%	3.75%
Common Equity	1,923,650	50.00%	1,231,555	-15.69%	-7.85%	(193,200)	1,231,554	17.26%	8.63%
Totals	3,847,300	100.00%	2,463,109		-4.10%	(100,833)	2,463,109		12.38%

**Haig Point Utility Company, Inc.**  
**Income Statement**  
**Test Year Ended June 30, 2004**

	<u>Combined</u> \$	<u>Water</u> \$	<u>Sewer</u> \$
<b><u>Operating Revenues</u></b>			
Residential	78,146	39,651	38,495
Commercial	19,225	10,023	9,202
Irrigation	48,749	48,749	
Availability Billing	82,136	41,068	41,068
<b><u>Total Operating Revenues</u></b>	<u>228,256</u>	<u>139,491</u>	<u>88,765</u>
<b><u>Operating Expense</u></b>			
Wages & Benefits	77,724	20,055	57,669
Repair & Maintenance	79,555	47,990	31,565
Sludge Disposal	0	0	0
Supplies	99	99	0
Outside Services	31,138	22,998	8,140
Telephone	3,670	2,259	1,411
Office Equipment Rental	490	490	0
Bad Debt	27,612	16,874	10,738
Power	28,108	19,419	8,689
Other Operating Expenses	10,445	9,209	1,236
<b><u>Total</u></b>	<u>258,841</u>	<u>139,393</u>	<u>119,448</u>
Depreciation	30,296	12,846	17,450
Amortization	0	0	0
Revenue Taxes	0	0	0
Property Taxes	0	0	0
Payroll Taxes	0	0	0
State and Federal Income Taxes	(14,775)	(14,799)	24
<b><u>Total</u></b>	<u>15,521</u>	<u>(1,953)</u>	<u>17,474</u>
<b><u>Total Operating Expenses</u></b>	<u>274,362</u>	<u>137,440</u>	<u>136,922</u>
<b><u>Total Operating Income</u></b>	<u>(46,106)</u>	<u>2,051</u>	<u>(48,157)</u>

**Haig Point Utility Company, Inc.**  
**Balance Sheet**  
**June 30, 2004**

<b><u>Assets</u></b>			
Plant In Service	4,339,598		
<b>Total</b>		4,339,598	
Accumulated Depreciation	(240,082)		
<b>Total</b>		<u>(240,082)</u>	
<b>Net Utility Plant</b>			4,099,516
Construction Work In Process	1,116,695		
<b>Total</b>			1,116,695
Current Assets			
Accounts Receivable - Net	59,708		
Other Current Assets	<u>0</u>		
<b>Total</b>			59,708
	<b><u>Total Assets</u></b>		<b><u>5,275,919</u></b>

**Liabilities and Other Credits**

Capital Stock and Retained Earnings			
Common Stock and Paid In Capital	4,637,782		
Retained Earnings	<u>(805,395)</u>		
<b>Total</b>		3,832,387	
Current and Accrued Liabilities			
Accounts Payable	405		
Taxes Accrued	14,969		
Advances from Associated Companies	<u>1,046,898</u>		
<b>Total</b>		1,062,272	
Contributions In Aid of Construction	464,000		
<b>Total</b>		464,000	
Accumulated Amortization of CIAC	(82,740)		
<b>Total</b>		(82,740)	
		<b><u>5,275,919</u></b>	